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Industry News, Retail FX

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FBI implicates several FX brokerages in BTC-e investigation. Here is why cryptocurrency is a sure fire way to destroy your brokerage

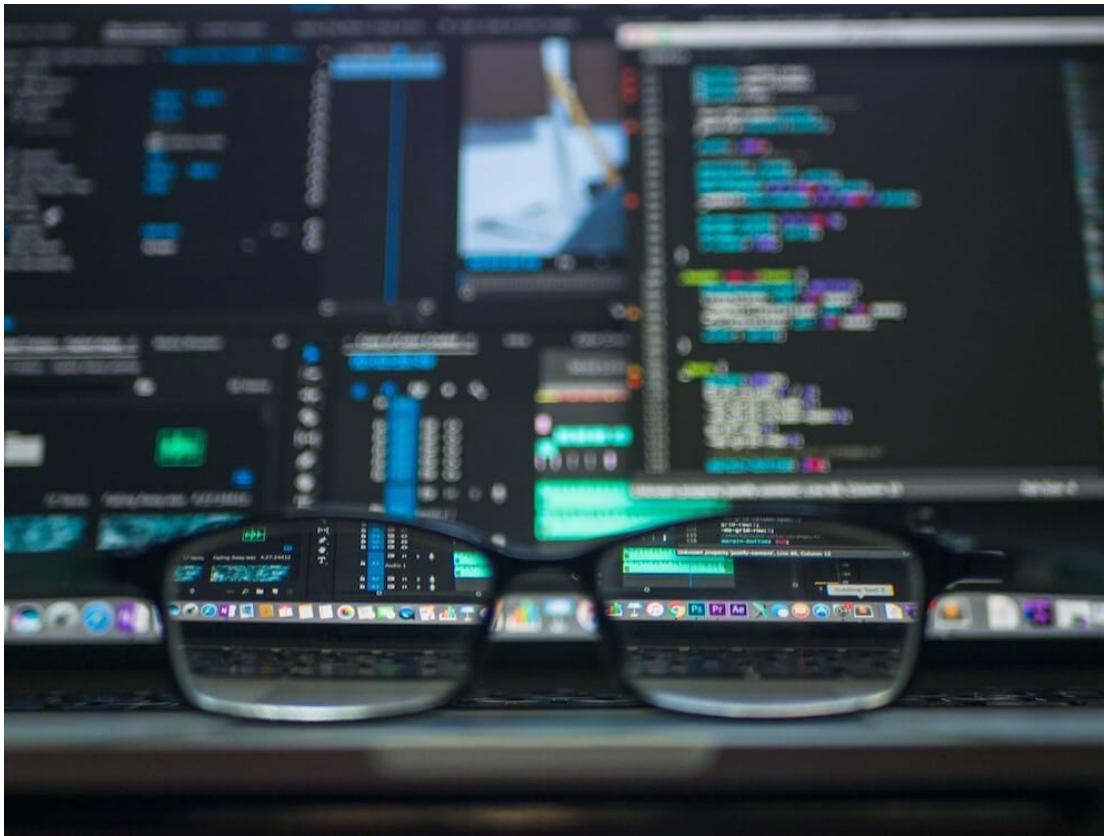


We detail the comprehensive sequence of events surrounding BTC-e's dealings with FX firms and brokerage should avoid this crypto-mania. We lift the lid on a myriad of reasons to keep well clear of Bitcoin exchanges and those who operate them, and we speak to the companies involved in the FBI investigation.



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As if the recent plethora of completely false Initial Coin Offerings (ICO) that have infested the lower end of the retail FX trading sector as a result of malevolent binary options and small b-book firms from fringe locations have morphed into is not enough to ensure that genuine industry participants keep well away from cryptocurrency related toxicity, then this week's occurrences should be conclusive.

Whilst those in the know concur that ICO and cryptocurrency related pyramid schemes which involve completely fabricated units of non-currency to fund non-starter projects with absurd pipe dream products bear no relation whatsoever to the genuine electronic trading business, there is still a school of thought that considers Bitcoin to be a commodity, which can be traded very effectively on a retail trading platform as a bona fide asset class.

This, on the face of it, may well appear to be not so far-fetched, and with the unprecedented rise in 'value' of Bitcoin recently, many smaller retail FX firms have been far too tempted to

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Bitcoin, like all other virtual currencies, may well be classified as a commodity in terms of its status as a tradeable asset class, but unlike genuine commodities which are usually raw material based, Bitcoin has no issuer, has no method for pricing, cannot be cleared by any institution, and perhaps worse still, was the creation of, and is the darling of anarchists who do not mean well.

Last week, FinanceFeeds reported that one particular well known retail FX brokerage had suffered a loss of approximately \$40 million as a result of Bitcoin trading, and now cannot pay its affiliates. The authorities have no means of intervening and customers have no recourse, because effectively they were taking highly leveraged risks in trading something that, as far as the mainstream financial system is concerned, does not exist.

We are aware of several other brokers, largely in Russia and Cyprus, that have experienced significant losses recently from Bitcoin trading.

The more conservative among us have explained to FinanceFeeds that the folly of cryptocurrency trading will likely be fully understood if the value of Bitcoin just drops to around \$15,000 – it does not have to go to zero. This would create a worse situation for those who got involved in it than the Swiss National Bank's decision to remove the 1.20 peg on the EURCHF pair in January 2015.

It is, however, worse than that. Of course, it is prudent to speculate that Bitcoin values will collapse with an almighty thud akin to an iron girder being thrown from a precipice once it is realized that this is a back-street circumvention of a well proven system rather than a route to the future, however due to its completely peer-to-peer nature, it does not even have to fall in value (which it will, mark my words – ed.) for brokerages to be completely devoured by corrupt exchange owners, premeditated e-wallet thefts by those on the inside, and dubious demises of venues whilst the owners literally leg it to the Seychelles.

Tier 1 issuers of currency, such as Goldman Sachs, Merrill Lynch and Barclays cannot leg it

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Raw materials exchanges in Chicago and Hong Kong cannot leg it and say that millions of tons of physical gold no longer exists.

Reserve banks and national governments with constitutions and laws cannot leg it and say we are no longer here and everything has vanished into the ether.

Bitcoin and other cryptocurrency fraternities can, and have done in the past, and will do even more of that now that Bitcoin's value is so high that they can rake as many dollars as possible and run.

If the demise of MtGox and the arrest of owner Mark Karpeles several years ago was not a precursor, then who knows what was.

This week, the Federal Bureau of Investigation (FBI) in the United States has implicated two FX brokerages in its investigation of defunct Bitcoin venue BTC-e.

During 2013 and 2014, BTC-e had many outages related to Distributed Denial of Service attacks. They later began using the reverse proxy service CloudFlare to help mitigate these attacks, reducing downtime for the exchange.

The BTC-e website has been offline since 25 July 2017, following the arrest of BTC-e staff members and the seizure of server equipment at one of their data centers. In addition, suspected BTC-e operator Alexander Vinnik was arrested while vacationing with his family in Greece. These events led to the suspension of the BTC-e service.

On the 28th of July 2017, US authorities seized the BTC-e.com domain name.

BTC-e posted on 31st July 2017 that Alexander Vinnik was never the operator of BTC-e and that they would be back working within a month or would put in place a plan to return funds and coins to users.



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From there, the FBI has been continuing its investigation, and has brought two firms into the matter, those being Russian retail FX brokerage FXOpen, and Russian-owned, Cyprus based firm Mayzus.

Investigations in Russia have stated this week that, in 2013, Mr Vinnik met with an employee of Mayzus Financial Services (MFS), which has a payment license from the FCA and is registered in Britain, the firm being owned by Russian businessman Sergey Mayzus.

Before the beginning of the conversation, the representative of Mayzus asked Mr Vinnik to show his passport to make sure that he is really who he claims to be. “The purpose of the meeting was to get acquainted and discuss services that are necessary for BTC-e,” the Mayzus director explained in a memorandum to the Greek courts on December 6, 2017.

According to the FBI and investigators locally, Mayzus belongs to the payment systems providers OkPay and MoneyPolo. Through them, users of BTC-e could replenish their accounts on the site – along with “Yandex.Money” and other services. However, Mayzus had one exclusive service: BTC-e users could make the transfer directly from the bank account, bypassing the conversion into electronic money. Those who had become advocates of bitcoins did not know who was the final recipient of funds from BTC-e, thanks to the presence of the first intermediary in the form of Mayzus.

Later in 2013, after the meeting with Mr Vinnik, Mayzus opened accounts of several companies, in particular Always Efficient, a British entity, and Canton Business, based in the Seychelles.

These companies “provided services under the BTC-e brand”, it follows from an explanatory note. Canton Business, judging by the indictment of the Northern District Court of California, is the “offshore management company” of the exchange, and Always Efficient since mid-2015 was listed on the BTC-e site as the official site operator (WayBack Machine data).

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executives. Always Efficient was represented by 30-year-old Alexander Buyanov, and 37-year-old Stanislav Golovanov – Canton Business.

In order to speak with Mr Buyanov, a correspondent from Russian media entity RBC magazine went to the Moscow karaoke bar Shishas on Novy Arbat, where he works as a DJ. In order to talk about crypto-currencies, he had to go out into the street, making his way through the dancers. Mr Buyanov's appearance was described by the correspondent as completely counter to any professional in the electronic trading or financial services business, as he had a beard and styled moustache, rather like an anarchistic 'hipster' than a trustworthy professional.

Mr Buyanov absolutely does not resemble in appearance or character to be the owner of the exchange with a turnover of millions of dollars. The DJ insists that, up until the scandalous news of its demise, he did not know about the existence of BTC-e, maintaining that he was only responsible for Always Efficient and that he was its leader.

Representatives of Mayzus apparently never spoke with Mssrs Buyanov or Golovanov, as it follows from the explanatory note, all matters related to the cooperation of the company Maysus and BTC-e, were solved with Mr Vinnik remotely.

The IT entrepreneur himself repeatedly stated in court that he only advised the exchange as a "technical expert". All communication went through the Internet, he does not know the names of his interlocutors from the trading platform, and Mr Vinnik told the correspondent of RBC magazine, while he waited for the meeting of the Greek trial. On the question whether he gave recommendations only on the issues of conducting exchange operations and withdrawal-input of funds, the Russian responded: "And not only." He does not remember the exact date for the beginning of cooperation with the stock exchange: "Maybe earlier than 2013".

The cash flow from BTC-e users was filtered not only thanks to Mayzus. Offshore firms,

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In May 2017, the administration of BTC-e took the first step towards abolishing the basic principle – the ability to buy and sell crypto currency anonymously, indicating only an e-mail address when registering. Users were offered to undergo voluntary verification in exchange for a number of advantages in the replenishment of personal accounts: for the development of the virtualization it was necessary to provide a scan of passports and, for example, copies of utility bills. It was necessary to pass the procedure not on BTC-e, but on another trading platform with a similar name – xBTCe.com, which can be connected with the company FXOpen.

FXOpen was founded in the mid-2000s. The holding, which unites a network of legal entities from Russia, Latvia, Great Britain, New Zealand and other countries, provides services for trading on the retail FX market. The Russian division of the group is headed by Elena Isaeva, Deputy Expert Advisory Council under the Budget Committee of the Federation Council. In various online ratings based on broker ratings, FXOpen is among the top 20 global companies and has a very good reputation in its home market.

The cooperation between FXOpen and BTC-e began in 2013, when the Exchange customers could trade the BTC / USD currency pair via the MetaTrader platform, and since 2014 users had the opportunity to give the Crypto-Currency to the trader management (the so-called PAMM accounts.)

Whether substantiable or not, the investigators claim that all software for “pumping” BTC-e was provided by FXOpen. This service was then not offered by any exchange, so users perceived it as a breakthrough.

In the second half of 2013, two new administrators registered at BTC-e – support5 and support1: they used Latvian IP-addresses of Soft-FX, a member of the FXOpen holding company (database of users of the exchange). Support1 subsequently behaved like a moderator of the marketplace participants, with the investigators having located substantial information from the chat archive. “This exchange [BTC-e] is a kindred of FXOpen”- wrote a client in early 2014 in a chat room about trading platform.

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FinanceFeeds has spoken to FXOpen's senior management on this matter, and any common ownership was vehemently refuted, however the investigators maintain that kinship could be not only technical, but also financial. In Athens, Maysus handed over to Greek courts, a report to the National Anti-Criminal Agency of Great Britain, prepared by Mayzus Financial Services after the scandal with BTC-e. This analyzed the transactions of Alexander Vinnik's structures for 2014-2017. Transit money went to the companies related to FXOpen, it follows from the document: only in 2017 the New Zealand company XP Solutions Ltd, connected with the forex holding, received through MFS about € 26.9 million.

Yesterday evening, FinanceFeeds took this up with FXOpen's senior management.

"No, FXOpen is not a part of BTC-e" said the FXOpen executive.

"Yes, we worked with BTC-e by providing software and services, however I cannot comment at the moment due to investigation. "We already in contact with all investigators with all possible reports and we will be able to comment as soon as we will get acceptance from investigators, and we have some standard text for this situation, if you wait till Wednesday I will send it to you" he said.

The FXOpen executive explained to FinanceFeeds "Crypto is very popular and we have good software which is very popular now with users, and from day 1 we do KYC and AML and correct due diligence."

"It is one hundred times more in demand than FX!" exclaimed the FXOpen executive.

"I believe it has a lot more potential to grow, however our prognosis for 2017 was \$5000 to one BTC, which it exceeded, so we believe it will get to \$50000 in 2018" he said.

"When the blow will happen is hard to say" explained the FXOpen executive. "At the moment it should grow more though, however with the current prices, the whole BTC-e story look a

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When approached by FinanceFeeds on the subject of exchanges and Bitcoin entities simply stealing from customers, the FXOpen executive said “It is just like the old times in FX!”

“I will tell you one thing however” he said “Most of the FX brokers providing crypto on an OTC basis and doing B-book – it is suicide!”

The beneficiary of FXOpen is the 36-year-old native of Belarus Alexander Klimenko. He owns one of the main structures of the holding company, British FXOpen Ltd, and the company’s trademarks.

FXOpen “did not own shares in the BTC-e exchange and did not even cooperate with it, but simply provided technical solutions,” Mr Klimenko said in a conversation with a RBC correspondent, concurring exactly with what FXOpen’s executive explained to FinanceFeeds, indicating that a common legal reply has been generated. For all services, including verification through xBTCe.com, the exchange paid the holding, he added, refusing to give specific amounts. When asked if he knew Vinnik personally, Klimenko replied: “Of course, they came to our office”. Who exactly represented BTC-e, except Vinnik, the entrepreneur could not remember.

Mr Klimenko’s relatives explained to Russian investigative journalists that he lives permanently in Riga. Mr Vinnik, according to RBC magazine, only from February 2016 to May 2017, traveled to the Latvian capital at least six times, but Mr Klimenko said that he did not meet with him during this period. Mr Vinnik himself on request to talk about the acquaintance with the owner FXOpen said: “I cannot now answer this question.”

The last trip made by Mr Vinnik to Riga for one day was held in May 2017. Two months later, he again went to Europe – this time, along with his family, he flew for a vacation in Greece. And since then can not leave Greece as a result of the court’s ruling.

War of extradition

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but they did not go down to the sea to swim. Instead they were interested in a man who was resting on a sun lounger next Alexander Vinnik and his wife, an incident that was reported on Russian television channel RT. This led to a raising of profile, which then resulted in the Greek law enforcement agencies arrest of Mr Vinnik at the request of the US Department of Justice.

In parallel, FBI officers seized the exchange's servers, which since 2011 were located in the US state of New Jersey. The BTC-e site stopped loading: the domain was seized – now there is a stub with the emblems of various American law enforcement agencies.

The indictment in the Winston Court of the Northern District of California was approved in January 2017. The arrest could only be effected after the entrepreneur went online with the mobile phone number known to the American authorities wrote the “RIA Novosti” agency.

In the US, Mr Vinnik is considered the owner of BTC-e, which cybercriminals used to launder money. The exact amount in the charge is not indicated: it is only written that the cost of bitcoins passed through the exchange exceeds \$ 9 billion. However, in the release of the US Justice Department, published after the arrest of the Russian, another estimate was made – \$ 4 billion.

In particular, US law enforcers believe that Vinnik had to do with the withdrawal of 530,000 bitcoins stolen from 2011 to 2014 from the purses of the Japanese Mt. Gox: 300 thousand went to three accounts on the BTC-e, including WME and Vamnedam, which are associated with Vinnik, stated in the materials of the US court.

The Greeks are considering the issue of Vinnik's extradition slowly. From the beach to Chalkidiki, he was transported to the prison in Thessaloniki: in early October, the council of city judges supported the request of the Americans. But the Russian filed a complaint to a higher authority, the Areopagus, and he was transported to the Athenian prison. The final decision on the extradition of Vinnik will be taken by the Minister of Justice of Greece, who

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FinanceFeeds is in possession of documents from the government of Cyprus which state clearly that the intention of Cyprus' authorities – not at CySec level, but at central government level – is to remove the low level nefarious ICO, crypto and binary firms from Cyprus completely, in a bid to introduce funds and family offices to the island, hence the whiffy reputation created by foreign (Israeli and Russian) criminals touting binary options and ICO scams must be banished.

If this is not a very comprehensive warning to avoid dragging the electronic trading business into a mire, then I do not know what is.



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Plus500's results disguise grave reality of cryptocurrency insecurity

Plus500 states that cryptocurrency CFD trading only accounted for 15% of all revenues, yet user acquisition cost was massively reduced by being able to target cryptocurrency web traffic en masse. Either it's popular, or it's not. The proof is in analyzing the figures – so that's what we have done

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Insight: We investigate bungling regulator CySec's cryptocurrency minefield



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FCA protects the UK from cryptocurrency fraud, whilst EU allows it as it issues license to crypto exchange

Europe encourages the folly and danger of cryptocurrency exchanges by issuing a license to the world's largest virtual exchange for Ethereum, Litecoin and Bitcoin, whereas Britain remains completely against it, and rightly so. Here is our analysis on today's decision by the EU, whose rulemakers seem to have forgotten the litany of exchange demises and owners running off with money with no recourse for customers. Here is our analysis why London got it right and Brussels yet again got it wrong

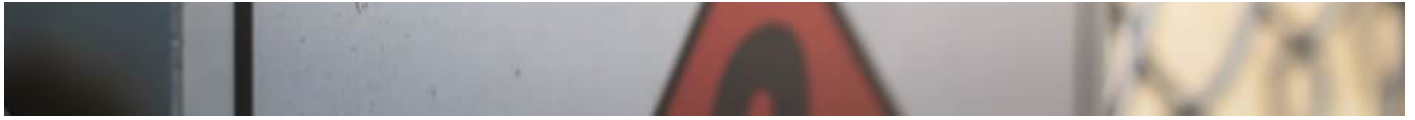
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Some brokers lost a fortune on crypto currency trading yet have remained silent. Our advice: Stay away



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Opinion, Week in Review

ICO = Insidious CON offering

ICO. An overused three letter acronym that has taken the place of 'blockchain' and is equal in its buzzword status to 'crypto'. We look at why it is just that – a buzzword with no substance – and how to navigate the empty cryptobabble.

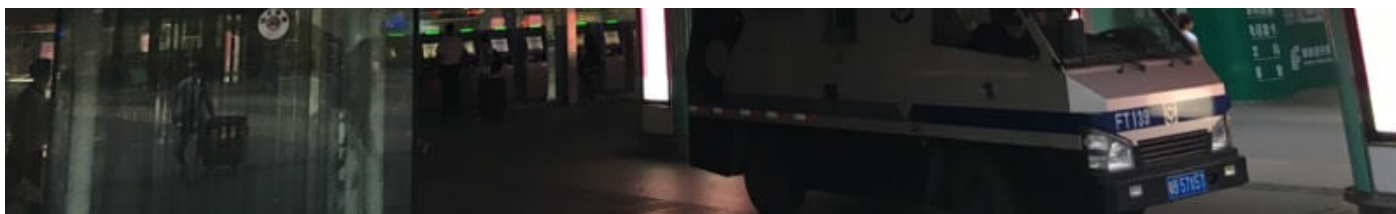
Industry News, Retail FX

China is to block all websites related to cryptocurrency trading and ICOs including foreign platforms in a bid to finally quash the market completely



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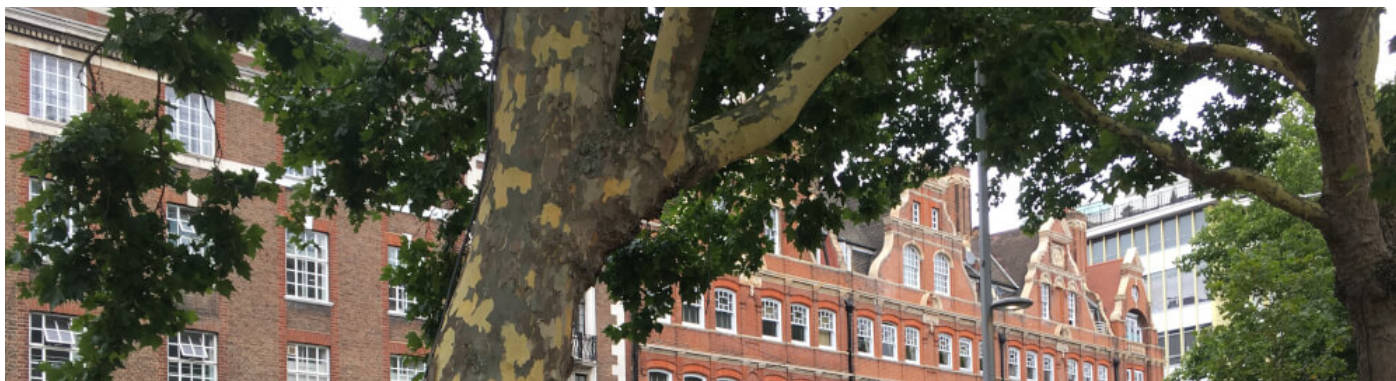
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FinanceFeeds predictions: Our observations and research on every aspect of the FX industry and what will happen in 2018

2018 will be excellent for the established and high quality companies. A year of growth and for their prestige and ability to shine. Conversely, it will be a year which will show the low end exactly where to go, and will expose the danger of follies such as ICOs, and various crypto-bandwagonism which is not part of this industry. We examine each sector of the business, and what to look out for in 2018. A great year lies ahead!

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British FX hedge fund managers favor ICOs because they remove binary options fraudsters from electronic trading



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Plus500 falls foul of litigation in further evidence that cryptocurrency is nothing more than a folly

“Let’s say I make a bet today on bitcoin going up. Plus500 would say ‘by the time we managed to execute the transaction, bitcoin went down again” says lawyer in his attempt to instigate proceedings against the company on behalf of retail clients



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